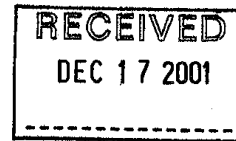




COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC 10 2001



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Joseph G. Kehoe *JG Kehoe*
Commissioner, Small Business/Self-Employed

SUBJECT: Draft Audit Report - Improvements in Recording Third Party
Addresses From Tax Returns Will Reduce Undeliverable
Business Mail
(Audit Number(s) 2000-30-042/2001-30-168)

We appreciate your analysis and recommendations for reducing the volume of undeliverable business mail. We believe we can reduce undeliverable mail by implementing the Corrective Actions in this response. Several of the Corrective Actions will require extensive programming changes that will not occur before January 1, 2004. Additionally, implementing many of the recommendations will require coordination among several Business Operating Divisions.

We agree with the monetary benefits you listed in the reports. However, we do not agree with recommendation six, which suggests we place an "in care of" line on business returns.

We carefully considered the recommendations in your draft report and offer the following comments:

IDENTIFICATION OF RECOMMENDATION/FINDING #1

The Commissioner, Small Business/Self-Employed Division, should ensure that the ISRP System is updated to provide operators with the opportunity and capability to make on-line changes to both the names and addresses contained in taxpayers' third party tax addresses during the processing of business returns.

ASSESSMENT OF CAUSE(S)

When the taxpayer files a tax return with a mailing address different from the current account address on the BMF, the method we use to identify the need to update the account address is one of the following:

- The taxpayer checks a box indicating a change of address

- An employee checks IDRS during ISRP and identifies a discrepancy between the address on the return with the address on IDRS.

CORRECTIVE ACTIONS

To implement recommendation one, we must perform extensive analysis, coordination, and programming changes to ISRP and programs that provide and receive data from ISRP. It is unlikely we can make these changes before the 2004 filing season.

PROPOSED IMPLEMENTATION DATE

Programming changes: January 1, 2004

RESPONSIBLE OFFICIAL(S)

John A. Ressler, Director, Customer Account Services, SB/SE

CORRECTIVE ACTION(S) MONITORING PLAN

Because we cannot make these programming changes before the 2004 filing season, SB/SE will develop an action plan. The action plan will identify the analysts responsible for submitting RISs for the programming changes and implement a procedure to ensure proper updating of "in care of" names.

IDENTIFICATION OF RECOMMENDATION/FINDING #2

The Director, Electronic Tax Administration, Wage and Investment Division (W&I), should ensure that the ELF System can process electronically filed business returns with taxpayers' correct and complete third party tax addresses.

ASSESSMENT OF CAUSE

Electronically filed returns can potentially be more accurate than paper returns because the IRS can perform certain validity checks before accepting the returns. However, we do not include validity checks in the current e-file system to verify and update "in care of" names on third party tax addresses on business returns.

CORRECTIVE ACTIONS

We agree the ELF System should update the "in care of" names on third party tax addresses on business returns. However, implementing this recommendation would require cross organizational actions because required changes not only involve electronically filed business returns but all business returns filed, including paper filed returns.

In processing electronically filed business returns, we extract only those data fields transcribed from the paper return for posting to the Master File, because electronic returns cannot update the Master File. When we make changes in the paper environment, we will update our requirements to compliment their programming.

PROPOSED IMPLEMENTATION DATE

January 1, 2004

RESPONSIBLE OFFICIAL(S)

John Dalrymple, Commissioner, Wage and Investment
Terence Lutes, Director, Electronic Tax Administration, W&I
Sherill Fields, Director, Diversified Electronic Filing Division, W&I

CORRECTIVE ACTION(S) MONITORING PLAN

Wage and Investment will schedule follow-up meetings with SB/SE and Information Technology System (ITS) to identify the requirements for this corrective action. In February 2003, W&I and SB/SE will forward final requirements to ITS and participate in annual BATS testing.

IDENTIFICATION OF RECOMMENDATION/FINDING # 3

Determine what the returns processing functions and systems shall recognize as sufficient legal notification for fiduciary name and address changes and ensure that it complies with tax law.

ASSESSMENT OF CAUSE(S)

The Code of Federal Regulations (CFR) requires that a person acting in a fiduciary capacity give written notification to the office where the fiduciary files the return. Form 56 (Notice Concerning Fiduciary Relationship) is not an Internal Revenue Code or CFR requirement for creating or terminating a fiduciary relationship. Form 56 and Form 1041 do not have consistent information on when to use them. IRM instructions do not give consistent information on the requirements for each area that processes fiduciary requests.

CORRECTIVE ACTIONS

Small Business/Self Employed, Customer Account Services, BMF Policies, Procedures and Guidance, will partner with Media and Publications Division, Tax Forms and Publications Division, Multimedia Publishing Division, and Chief Counsel to develop legal notification for fiduciary name and address changes and ensure it complies with tax law.

PROPOSED IMPLEMENTATION DATE

January 1, 2003

RESPONSIBLE OFFICIAL(S)

John A. Ressler, Director, Customer Account Services, SB/SE
Carolyn Tavenner, Director, Media and Publications, W&I CARE

CORRECTIVE ACTION(S) MONITORING PLAN

SB/SE will maintain open communication with Tax Forms and Publications to determine if we should make any changes to Form 56 or Form 1041 and their instructions. If we make changes to the return, we will determine if we need to change Form 56 and Form 1041 programming and/or processing instructions. Additionally, SB/SE will develop and coordinate an action plan to designate the analysts responsible for developing the legal notification for fiduciary name and address changes to ensure it complies with tax law

IDENTIFICATION OF RECOMMENDATION/FINDING # 4

Ensure that the procedures to update changes to fiduciaries' names and addresses are consistent throughout all IRS return processing functions and systems so taxpayers are treated equitably.

ASSESSMENT OF CAUSE(S)

When taxpayers enter third party tax addresses on tax forms, we do not require them to identify, nor give them space to identify, whose mailing addresses they are listing on their returns. Taxpayers enter third party tax addresses, listing company presidents, representatives, fiduciaries, or partners, as the "in care of" names. It is not always clear to the IRS whether the addresses listed on the returns are the mailing addresses of taxpayers or that of the presidents, representatives, fiduciaries or partners. As a result, the IRS processing functions may process inaccurate information to the BMF. Further, taxpayers may not know whether or not to check the change of address box when it is not the taxpayers that have moved, but the "in care of" named on their accounts, such as their accountants. We may use undeliverable addresses on the notices and refunds we issue.

CORRECTIVE ACTIONS

The BMF Returns & Integrated Submission & Remittance Processing Section will update and ensure consistent changes to fiduciaries' names and addresses throughout BMF Submission Processing programs and related systems, to ensure we treat taxpayers equitably. Additionally, the BMF Returns & Integrated Submission & Remittance Processing Section will ensure forms and instructions contain consistent procedures to minimize taxpayer burden.

PROPOSED IMPLEMENTATION DATE

January 1, 2003

RESPONSIBLE OFFICIAL(S)

John A. Ressler, Director, Customer Account Services, SB/SE
Carolyn Tavenner, Director, Media & Publications, W&I CARE

CORRECTIVE ACTION(S) MONITORING PLAN

SB/SE will maintain open communication with the offices of Media and Publications Division to determine if we should make any changes to Form 56 and Form 1041 and their instructions. If we make any changes, we will determine if we need any changes to Form 56 and Form 1041 programming and/or processing instructions. Additionally, we will review samples in the units where employees input the "in care of" name information into the IDRS system and identify any inconsistencies among tax examiners working these cases.

IDENTIFICATION OF RECOMMENDATION/FINDING # 5

Ensure that all tax forms, instructions, and publications clearly explain the IRS process and requirements for creating and terminating fiduciary relationships.

ASSESSMENT OF CAUSE

We do not agree all tax forms, instructions, and publications should explain the IRS process and requirements for creating and terminating fiduciary relationships. The report specifically addresses the lack of information in the Form 1041 instructions about when individuals should use the form and how to make changes in fiduciaries or fiduciary addresses. We believe that including information concerning fiduciary relationships in other documents would create unnecessary burden and potential confusion among the general public. Therefore, our corrective action only applies to the Form 1041 instructions because it is the most appropriate place to provide information about fiduciaries.

CORRECTIVE ACTION

We are currently revising Form 1041 instructions to add information about when to file Form 56 and how to notify the IRS of a change in fiduciary or the fiduciary's address.

IMPLEMENTATION DATE

December 28, 2001

RESPONSIBLE OFFICIALS

Carolyn Tavenner, Director, Media and Publications, W&I CARE

CORRECTIVE ACTION(S) MONITORING PLAN

We will use the normal ITC procedures to monitor and report the status of the corrective action. We will follow up in December, 2001 to ensure we complete the action timely.

IDENTIFICATION OF RECOMMENDATION/FINDING # 6

Explore the possibility of including an "in care of" line on business returns and the ability to indicate whose mailing address is listed on the return.

ASSESSMENT OF CAUSE

Currently, the format of business returns does not provide space for identifying whose address the individual has entered on the return. In some cases, this may not be the taxpayer's address. We have no way to indicate on business returns that the address provided in the entity section belongs to someone other than the taxpayer.

CORRECTIVE ACTION

We agree to explore with Counsel the possibility of including an "in care of" line on business returns; however, most of the business forms have little or no available space to add the "in care of" line.

We must address processing systemic issues. As indicated on page 2 of the draft report, "the IRS database did not reflect the names contained in the third party tax addresses as shown on 20 percent of these returns." It appears the taxpayers are already placing the "in care of" information on the returns, but the employees are not recognizing the information or do not know how to input the information if they recognize it. Also, as stated, on pages 5 and 6 of the draft report, the Integrated Submission and Remittance Processing (ISRP) System limits updating capability. As stated, "If taxpayers did not check the box on their returns indicating a change to their third party tax addresses, but manually inserted the names and addresses, the accounts were not updated by the Code and Edit functions." We processed the returns through ISRP where the following occurred:

- The data input screen allowed operators to update the streets, towns, states, and zip codes, but not the new "in care of" names listed on the taxpayers' returns.
- The screen visible to the data entry operators did not show any prior "in care of" names currently on the taxpayers' BMF accounts.
- The tax returns gave the operators no indication the third party tax addresses needed additional correction.
- The ISRP system did not offer the operators the opportunity or capability to update this information for BMF accounts.

Finally, we are concerned the "in care of" line may not be legally sufficient to meet requirements for the delivery of statutory notices. Our concern is that the "in care of" address is not the last known address of a customer and issuing a statutory notice to his or her address would not be legally sufficient for future compliance efforts. Implementing this recommendation would impact SB/SE, Large and Mid-Size Business taxpayers and, depending on the interpretation of the term "business returns", possibly Tax-Exempt /Government Entities.

The Media and Publications Division will work this issue through Chief Counsel to determine if the recommended change will continue to meet legal requirements for sending statutory and other notices and correspondence to the business taxpayer's last known address.

PROPOSED IMPLEMENTATION DATE

March 1, 2002

RESPONSIBLE OFFICIALS

Carolyn Tavenner, Director, Media and Publications, W&I CARE

CORRECTIVE ACTION(S) MONITORING PLAN

We will use the normal ITC procedures to monitor and report the status and follow up by April 1, 2002.

IDENTIFICATION OF RECOMMENDATION/FINDING # 7

Ensure that IRS forms, instructions, and publications clearly describe how taxpayers, preparers, fiduciaries, etc., should enter third party tax addresses on the tax returns.

ASSESSMENT OF CAUSE

Tax forms, instructions, and publications do not clearly explain how to inform the IRS of third party addresses.

CORRECTIVE ACTION

We agree IRS forms, instructions, and publications should clearly describe how taxpayers, preparers, fiduciaries, etc., should enter third party tax addresses on the tax returns. We will review our tax forms and instructions and publications to determine whether we need to provide additional information in other tax products beyond Form 1041 instructions. We will partner with practitioner groups to solicit their input on this.

PROPOSED IMPLEMENTATION DATE

June 15, 2002

RESPONSIBLE OFFICIALS

Carolyn Tavenner, Director, Media and Publications, W&I CARE

CORRECTIVE ACTION(S) MONITORING PLAN

We will use the normal ITC procedures to monitor and report the status and follow up by July 15, 2002.

IDENTIFICATION OF RECOMMENDATION/FINDING # 8

Explore the logic and reason behind the United States Postal Service's (USPS) procedure of putting black lines through the IRS bar codes on the undeliverable mail envelopes. If the USPS cannot provide a reasonable explanation for this procedure then the IRS should request that it be discontinued.

ASSESSMENT OF CAUSE

The Service Center Automatic Mail Processing System (SCAMPS) does not appear to be able to be used as an effective management tool because the USPS places a black line through the bar coding on the IRS' undeliverable mail envelopes. As a result, the system cannot read and generate reports using the important data contained in the IRS bar codes.

CORRECTIVE ACTION

The USPS instructed employees to blacken the Postnet bar code on undeliverable mail. Before delivery, the IRS sprays the Postnet bar code on the lower right hand corner of IRS envelopes. USPS only does blackening when mail is returned undeliverable. If USPS does not blacken the bar code, the mail sorter will read that bar code and send the mail again to the undeliverable address. The IRS bar code, which contains customer-filing requirements, is on the document being sent and can be seen through the window of the envelope. The IRS uses other bar codes that we print or spray onto the envelope for routing purposes. The USPS employees blacken all bar codes instead of only the bar code in the lower right hand corner. To correct this, we are replacing our own bar codes with a 2-D bar code. The bar code looks different from the Postnet bar code. We will store all information from the different bar codes on the one 2-D bar code. Because the USPS instructed its employees to blacken only the Postnet bar code, they will not blacken the 2-D bar code. As a result, we can return the mail to the proper function within the IRS.

IMPLEMENTATION DATE

September 30, 2002

RESPONSIBLE OFFICIAL

Carolyn Tavenner, Director, Media and Publications Division, W&I CARE
John A. Ressler, Director, Customer Account Services, SB/SE

CORRECTIVE ACTION(S) MONITORING PLAN

We are developing an action plan to monitor the corrective action(s) for this recommendation.

IDENTIFICATION OF RECOMMENDATION/FINDING # 9

Ensure that undeliverable mail figures are recorded consistently and compare the figures to statistics compiled by the Extracting and Sorting function.

ASSESSMENT OF CAUSE

W&I and Media and Publications share responsibility for recording undeliverable mail figures. While (W&I) Submission Processing is the business owner of SCAMPS, the Multimedia function has the undelivered mail process. Because SCAMPS cannot read our bar code when the USPS blackens it, we find discrepancies in the numbers of undelivered mail that the two organizations record.

CORRECTIVE ACTIONS

SB/SE Submission Processing will coordinate with (W&I) Customer Account Services to ensure they record undeliverable mail figures consistently between both organizations. They will compare those statistics to the statistics the Extracting and Sorting function compiles.

PROPOSED IMPLEMENTATION DATE

September 30, 2002

RESPONSIBLE OFFICIAL(S)

John A. Ressler, Director, Customer Account Services, SB/SE
Ron Watson, Director, Customer Account Services, W&I

CORRECTIVE ACTION(S) MONITORING PLAN

SB/SE will visit both Cincinnati and Ogden Submission Processing centers to assess whether we are reducing the volume of BMF undeliverable mail. SB/SE will also

coordinate with the Extracting and Sorting function monthly to obtain and monitor BMF undeliverable mail reports and associated volumes.

If you have any questions about our response, please contact John A. Ressler, Director, Customer Account Services, SB/SE Division, at (859) 669-5557.